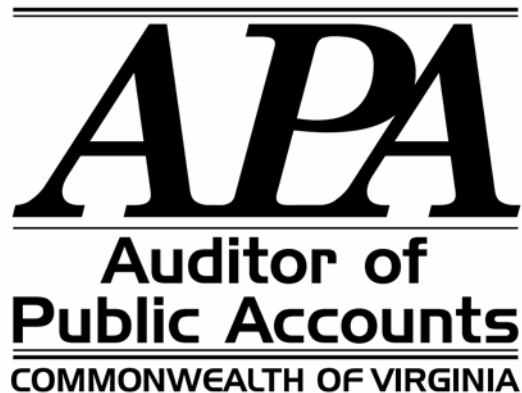


DEPARTMENT OF SOCIAL SERVICES

RICHMOND, VIRGINIA

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2003**



AUDIT SUMMARY

Our audit of the Department of Social Services for the year ended June 30, 2003, found:

- amounts reported in the Commonwealth Accounting and Reporting System and the Department's accounting records were fairly stated;
- an internal control matter that we consider a reportable condition; however, we do not consider this to be a material weakness;
- no instances of noncompliance that are required to be reported under Government Auditing Standards; and
- adequate corrective action of prior year audit findings.

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AGENCY OVERVIEW

The Virginia Department of Social Services (the Department) administers over 40 programs that provide benefits and services to low-income families. Both the state and local governments share in the administration of social service programs. The Department is comprised of a central office, five regional offices, and 121 locally-operated offices. Below is a description of the responsibilities of each office.

- Central Office has primary responsibility for the proper administration of all federal and state-supported social service programs. Central Office establishes policies and procedures that ensure adherence to federal and state requirements. Local offices implement these policies and regional offices enforce the policies. In addition, Central Office administers “benefit” programs such as Temporary Assistance for Needy Families (TANF), Food Stamps, Energy Assistance, and the Child Support Enforcement program. There are 22 child support enforcement district offices across the state.
- Regional offices perform program-monitoring functions. They provide technical assistance to local offices and serve as a liaison between the central and the local offices.
- Local offices deal directly with the consumers. They perform a variety of functions including eligibility determination and administering “service” programs such as Foster Care, Child/Adult Daycare, Adoption, and Child/Adult Protective Services. Local offices also provide information to consumers transitioning from dependency to independence.

FINANCIAL INFORMATION

The schedules below summarize the Department’s budgeted revenues and expenses compared with actual results for fiscal year 2003.

Analysis of Budgeted and Actual Revenue by Funding Source Fiscal Year Ended June 30, 2003

<u>Funding Source</u>	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual</u>
General fund appropriations	\$ 285,844,300	\$ 265,493,490	\$ 265,493,490
Special revenue funds	533,854,069	538,387,469	529,582,696
Federal grants	<u>607,535,420</u>	<u>724,534,022</u>	<u>653,228,664</u>
Total resources	<u>\$1,427,233,789</u>	<u>\$1,528,414,981</u>	<u>\$1,448,304,850</u>

**Analysis of Budgeted and Actual Expenses by Program
Fiscal Year End June 30, 2003**

Program	Program Expenses			Funding Source		
	Original budget	Adjusted budget	Actual	General fund	Special revenues	Federal grants
Administrative and Support Services	\$ 56,355,634	\$ 51,770,305	\$ 47,293,898	\$ 21,434,707	\$ 543,703	\$ 25,315,488
State Administration for Standards of Living Services	62,267,924	53,249,064	47,022,895	16,512,364	-	30,510,531
Temporary Income Supplement Services	132,043,876	154,265,160	142,112,656	52,668,391	253,244	89,191,021
Protective Services	102,666,231	123,489,720	117,987,138	51,340,469	483,383	66,163,286
Financial Assistance to Local Welfare/Social Service Boards for Administration of Benefit Programs	142,421,239	153,244,373	143,214,412	44,223,633	2,020,522	96,970,257
Continuing Income Assistance Services	20,036,083	18,849,083	18,847,423	18,847,423	-	-
Employment Assistance Services	64,598,684	76,598,684	66,359,225	27,365,947	-	38,993,278
Child Support Enforcement Services	582,341,968	583,242,711	561,240,977	166	514,082,132	47,158,679
Financial Assistance for Individual and Family Services	252,821,007	300,309,498	293,607,245	32,684,167	-	260,923,078
Regulation of Public Facilities and Services	<u>11,681,143</u>	<u>13,396,383</u>	<u>12,006,958</u>	<u>412,554</u>	<u>573,441</u>	<u>11,020,963</u>
Total expenses	<u>\$1,427,233,789</u>	<u>\$1,528,414,981</u>	<u>\$1,449,692,827</u>	<u>\$265,489,821</u>	<u>\$517,956,425</u>	<u>\$666,246,581</u>

As with all state agencies, the Department has undergone recent budget reductions in its general fund appropriations. The first round of cuts for fiscal year 2003 was four percent, or \$3.3 million. The second round of cuts for fiscal year 2003 reduced the Department's budget by \$14,510,917 in general funds and \$78,593 in non-general funds. Anticipated reductions for fiscal year 2004 are \$13,294,794 in general funds and \$82,039 in non-general funds. The Department has addressed these reductions by eliminating 20 positions, replacing 75 information services contractors with state classified employees at a lower cost, renegotiating their Electronic Benefits Transfer (EBT) contract at a lower cost, and reducing local social service agencies' general fund support by one percent in fiscal year 2003 and three percent in fiscal year 2004.

Furthermore, the department saved costs by reducing general fund support for the Division of Child Support Enforcement by 16.5 percent. To achieve the savings, the Department substituted federal funds in fiscal year 2003 for general fund support of at-risk childcare subsidies to working parents of school age children, TANF funds for Healthy Families and Hampton Healthy Start projects in fiscal year 2003 and 2004, and pre-K expenses as match for general fund of \$3.0 million in fiscal year 2003 and \$3.4 million in fiscal year 2004 in the child care program. The Department stated that no significant loss or reduction of services will result from budget reductions.

The Department increased its original federal trust fund budget primarily due to increased local revenue maximization efforts in individual and family care services. The increase in federal funds going to localities for these activities significantly exceeded projections for the original budget. Because the Department's federal grants are on a reimbursement basis, the Department had to incur expenses before it could request federal funds. The Department over anticipated the amount of expenses actually incurred in fiscal year 2003.

The schedules below summarize the Department's expenses by fund and type for fiscal year 2003.

**Expenses by Program Fund and Type
Fiscal Year Ended June 30, 2003**

<u>Expenses</u>	<u>Administrative and Support Services</u>	<u>State Administration for Standards of Living Services</u>	<u>Temporary Income Supplement Services</u>	<u>Protective Services</u>	<u>Financial Assistance to Local Welfare/Social Service Boards for Administration of Benefit Programs</u>	<u>Continuing Income Assistance Services</u>
Personal services	\$ 15,682,109	\$ 12,678,382	\$ 37,905	\$ 1,367,021	\$ 472,059	\$ -
Contractual services	24,074,336	9,527,710	427,544	426,179	13,150,233	-
Supplies and materials	287,907	227,805	3,880	67,078	-	-
Transfer Payments *	744,410	23,246,986	141,638,273	115,973,246	129,592,120	18,847,423
Continuous Charges**	2,291,644	1,215,055	461	141,466	-	-
Equipment	<u>4,213,492</u>	<u>126,957</u>	<u>4,593</u>	<u>12,148</u>	<u>-</u>	<u>-</u>
Total expenses	<u>\$ 47,293,898</u>	<u>\$ 47,022,895</u>	<u>\$142,112,656</u>	<u>\$117,987,138</u>	<u>\$ 143,214,412</u>	<u>\$18,847,423</u>

<u>Expenses</u>	<u>Employment Assistance Services</u>	<u>Child Support Enforcement Services</u>	<u>Financial Assistance for Individual and Family Services</u>	<u>Regulation of Public Facilities and Services</u>	<u>TOTAL</u>	
Personal services	\$ -	\$ 40,010,619	\$ 603,740	\$ 8,381,362	\$ 79,233,197	5.47%
Contractual services	21,940	25,548,594	913,855	2,267,469	76,357,860	5.27%
Supplies and materials	951	644,711	36,125	118,752	1,387,209	0.10%
Transfer Payments*	66,336,068	490,020,737	291,990,638	157,298	1,278,547,199	88.19%
Continuous Charges**	-	4,040,639	28,923	730,398	8,448,586	0.58%
Equipment	<u>266</u>	<u>975,677</u>	<u>33,964</u>	<u>351,679</u>	<u>5,718,776</u>	<u>0.39%</u>
Total expenses	<u>\$ 66,359,225</u>	<u>\$ 561,240,977</u>	<u>\$293,607,245</u>	<u>\$ 12,006,958</u>	<u>\$1,449,692,827</u>	<u>100.00%</u>

* Includes payments to local governments; individuals; nongovernmental and intergovernmental organizations; and community service agencies.

** Includes payments for building rentals, building capital leases, and equipment rentals.

INFORMATION TECHNOLOGY INITIATIVES

The Department made progress implementing several information technology initiatives. These initiatives include enhancing existing applications, upgrades, and incorporating new applications. The following sections discuss initiatives that impact eligibility determinations.

Income Eligibility Verification System (IEVS)

The federal government requires states to participate in a nationwide data exchange initiative with other federally-assisted benefit programs. The Department must exchange income and benefit data when making eligibility determinations for federally-assisted benefit programs. The purpose of these measures is to increase the accurate determination of benefit amounts and reduce the occurrence of overpayments. The Department implemented IVES statewide in January 2003 by integrating the Beneficiary Earnings Exchange Record, the New Hire Report, and the Internal Revenue Match into the Application Benefit Delivery Automation Project (ADAPT) system. The Department continues to access data from the State Data Exchange and Beneficiary and Earnings Data Exchange through the State Verification Exchange System (SVES).

Medicaid Module

In fiscal year 2002, the Department developed a Medicaid eligibility module in the ADAPT system. The module enables local social service agencies to electronically determine if an individual qualifies for Medicaid benefits. This system greatly improves the efficiency of Medicaid eligibility determination. It also reduces risks associated with a manual process. In July 2003, the Department trained all local social service agencies and granted them access to the Medicaid module to determine eligibility for individuals in the Families and Children population. Long-term care and Aged, Blind, and Disabled populations are not in ADAPT and eligibility is still performed on paper by eligibility workers. The department is working on identifying the requirements and platform for a new, integrated system which will include these Medicaid covered groups not currently in ADAPT.

INTERNAL CONTROL FINDING AND RECOMMENDATION

The Department has an agreement with the Department of Medical Assistance Services (DMAS) to determine an individual's eligibility and to operate a system to review that persons determining eligibility are properly performing their duties. DMAS also contracts with the Department to conduct a Medicaid Quality Control review as required by the federal government. The Quality Control process verifies the accuracy of the Medicaid eligibility process. The Departments need to work together to improve the Quality Control function.

Timely Submit Final Results and Corrective Action Plans of Medicaid Eligibility Quality Control Pilot Reviews

The Department did not timely complete and submit final results and corrective action plans to DMAS for the two fiscal year 2002 Medicaid Eligibility Quality Control pilots. The sample period for one pilot ended in March 2002 and the other pilot ended in April 2002. DSS did not submit final results and corrective actions plans for these pilots to DMAS until November 2003, over 19 months after the sample period ended. Although this submission met federal deadlines, DSS did not provide the information timely to DMAS personnel for review and appropriate action.

DSS periodically submits results and holds meetings with DMAS to discuss issues resulting from the pilot reviews. However, final results and corrective action plans are not prepared and submitted to DMAS, in some cases, until over two years after the end of the sample period. This is not timely for DMAS to review and improve controls over the Medicaid eligibility function.

DMAS spent almost \$2 billion in federal dollars for the Medicaid program. DSS plays a very critical role in determining eligibility for the Medicaid program. Although DSS did meet the federal deadline for federal fiscal year 2002 pilots, failing to submit future final error rate analysis and corrective action plans to DMAS on a timely basis may result in the inability of the Commonwealth to participate in future MEQC pilots.

The Department should adequately review pilot case information to timely submit final error rates and corrective action plans to DMAS in order for DMAS to take appropriate action.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

**Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218**

January 28, 2004

The Honorable Mark R. Warner
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Lacey E. Putney
Vice Chair, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Department of Social Services** for the year ended June 30, 2003. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objective, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System and in the Department's accounting records, review the adequacy of the Department's internal control, and test compliance with applicable laws and regulations. We also reviewed the Department's corrective actions of audit findings from prior year reports.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Department's operations. We also tested transactions and performed such other auditing procedures, as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

Federal Grants
Revenues

Expenditures
Federal Receivables

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Department's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations.

The Department's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide

reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

Audit Conclusions

We found that the Department properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System and in the Department's accounting records. The Department records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System and the Department's accounting records.

We noted a certain matter involving internal control and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial records. The reportable condition entitled "Timely Submit Final Results and Corrective Action Plans of Medicaid Eligibility Quality Control Pilot Reviews" is described in the section titled "Internal Control Finding and Recommendation." We believe that this reportable condition is not a material weakness.

The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

The Department has taken adequate corrective action with respect to audit findings reported in the prior year.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on February 19, 2003.

AUDITOR OF PUBLIC ACCOUNTS



COMMONWEALTH of VIRGINIA

DEPARTMENT OF SOCIAL SERVICES

February 18, 2004

Mr. Walter J. Kucharski
Auditor of Public Accounts
101 North 14th Street
Richmond, Virginia 23219

Dear Mr. Kucharski:

This letter will document the Department of Social Services' (DSS) response to the Auditor of Public Accounts audit report for fiscal year ended June 30, 2003.

Finding: Final results and corrective action plans for the Medicaid Eligibility Quality Control pilots were not completed and submitted to the Department of Medical Assistance Services (DMAS) in a timely manner.

Recommendation: Final error rates and corrective action plans should be submitted to DMAS timely.

Response: While the Department agrees that the information submitted to DMAS could have been more timely, we would reemphasize the auditor's acknowledgement that all federal deadlines were met. DMAS submitted the final results and corrective action plans to the Centers for Medicare and Medicaid on November 12, 2003—two days before the federal deadline. We would also point out that DSS' and DMAS' participation in the Medicaid pilot removes the threat of fiscal sanctions for the Commonwealth.

In December 2003, DSS implemented procedures to track the processes and time lines for submission of data to DMAS. These procedures were discussed with DMAS staff in December 2003 and again in January 2004 and will be included in the Memoranda of Understanding currently under development between DMAS and DSS.

The Department of Social Services is committed to resolution of the identified issue.

Sincerely,

A handwritten signature in dark ink, appearing to read "Maurice A. Jones".

Maurice A. Jones
Commissioner

DEPARTMENT OF SOCIAL SERVICES
Richmond, Virginia

Maurice A. Jones, Commissioner

BOARD MEMBERS
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